

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE GOSHEN)
UTILITIES, INC., SEWER DIVISION) CASE NO. 93-482

O R D E R

On February 7, 1994, Goshen Utilities, Inc. ("Goshen") completed the filing of its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Goshen's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

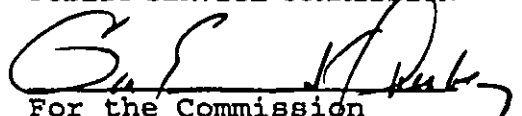
IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 17th day of June, 1994.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

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STAFF REPORT

Prepared By: Jack Scott Lawless
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Analyst
Water and Sewer Revenue
Requirements Branch
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Prepared By: Brent Kirtley
Public Utility Rate
Analyst
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STAFF REPORT
ON
GOSHEN UTILITIES, INC.
CASE NO. 93-482

A. Preface

On February 7, 1994, Goshen Utilities, Inc. ("Goshen") submitted its application to the Public Service Commission ("Commission") seeking approval to increase its tariffed sewer rates by 67 percent. Goshen's application purports that this increase will result in an increase in annual operating revenues of \$133,389. The application was filed reflecting Goshen's operating results for the year ended September 30, 1993.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Goshen's operations for the test period. Jack Scott Lawless of the Commission's Financial Analysis Division began his review on March 1, 1994 at Goshen's office in Louisville, Kentucky. Brent Kirtley of the Commission's Division of Rates and Research performed a review of Goshen's reported revenues at the offices of the Commission.

The findings of the field review are contained in this report. Mr. Kirtley is responsible for the sections related to operating revenues and rate design. The remaining sections of this report were prepared by Mr. Lawless. Based upon the findings of this report, Staff recommends that Goshen be allowed to increase its normalized revenues by \$48,671 or 25 percent.

Scope

The scope of the review was limited to obtaining information to determine whether test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed.

During the course of the review, Goshen was advised that all proposed adjustments to test year expenses must be supported by some form of documentation and that all such adjustments must be known and measurable as well as reasonable.

B. Determination of Adjusted Test Period Operations

Operating Revenue

Goshen reported test-period revenue from rates of \$196,174 in its application. In reviewing the application, Staff adjusted revenue from rates by deducting \$23. Goshen had \$5,257 in other operating revenue that was collected from late charges. Therefore, for the purpose of this report, total test-period normalized operating revenue shall be considered to be \$201,408.

Operating Expenses

Goshen reported operating expenses of \$269,723 for the test year which it proposed to increase by \$19,000. Staff has calculated pro forma adjustments that decrease operating expenses by \$50,805. Staff's adjustments are shown on Appendix B attached to this report. Goshen's and Staff's pro forma adjustments to test period operations are discussed in the following sections of this report.

Salaries and Wages

Goshen reported test year salaries and wages of \$77,125. Staff has increased this amount by \$5,183 to reflect Goshen's employees and their pay rates as of the date of Staff's field review.

Rent

Goshen's test year operating expenses did not include an amount for building rental while Goshen's water division reported building rent of \$3,736 for the twelve months ended September 30, 1993. Goshen shares the office building equally with the water utility and should therefore be charged for half of the rent. Staff has therefore increased Goshen's operating expenses by \$1,868.

Owner/Manager Fee

During the test year Goshen paid Mr. Al Schneider, part owner of Goshen Utilities, \$10,000 in managing fees. After reviewing the work being performed, Staff is of the opinion that the services provided by Mr. Schneider in this capacity are similar to those performed by the owners of similar utilities. Therefore, Staff recommends that this expense be decreased by \$7,600 so that Goshen may recover the maximum owner-manager fee currently allowable by the Commission of \$2,400.

Consulting Fee

Staff has decreased test year operating expenses by \$1,664 to eliminate consulting fees paid to Mr. James F. Stone under a contract which has since expired and was not renewed.

Rate Case Expense

Goshen reported test year rate case expense of \$7,592. Of this amount, \$1,638 was associated with this case with the remainder being the amortization of prior rate case expenses which have been fully amortized. Goshen proposed to increase this amount by \$6,000 (estimated rate case expense of \$18,000 amortized over a 3 year period). Goshen's estimate was based on the last rate case proceeding which included three informal conferences and one formal hearing. Staff does not anticipate that those proceedings will be necessary in this case and has decreased the rate case expense accordingly. Staff has calculated pro forma rate case expense of \$5,638, consisting of actual rate case expenses of \$1,638 and estimated rate case expense of \$4,000 as provided by Goshen's engineer, and proposes to amortize this amount over three years. Staff has therefore reduced Goshen's test-year expenses by \$5,713¹ to reflect this amortization.

¹	Rate case expenses	\$	5,638
	Amortize over 3 years		<u>3</u>
	Annual recovery		1,879
	Less: Test year		<u>(7,592)</u>
	Adjustment	\$	<u>(5,713)</u>

Maintenance

Goshen increased test year maintenance expenses by \$13,000 to recover the annual cost associated with the installation of dechlorination and aeration systems. After consulting with the Commission's Division of Engineering, Staff determined that these items should have been capitalized and depreciated over their estimated useful lives. Therefore, Staff recommends that Goshen's adjustment to maintenance expenses be denied and that test-year depreciation be adjusted as discussed later in this report.

Depreciation

Goshen reported test year depreciation expense of \$56,647. It is the Commission's practice for rate-making purposes to disallow depreciation expense on property funded by Contributions in Aid of Construction ("CIAC") for private water utilities operating under its jurisdiction.

Staff has determined that 85.77 percent² of Goshen's test-year depreciation expense is on property funded by CIAC and should be disallowed. Therefore, this expense has been decreased by \$48,587. This is the same methodology that was used in Case No. 89-081, Goshen's previous rate case.³

²	Sewer 1992 Contributions in Aid of Construction	\$1,240,314
	Divided by: Sewer 1992 Utility Plant in Service	<u>1,446,053</u>
	Unallowable depreciation	<u>85.77%</u>

³ Adjustment of Rates of the Goshen Utilities, Inc., Sewer Division, Order dated February 22, 1990.

Staff has increased test year depreciation by \$5,708 to allow for the recovery of the following items previously discussed in this report:

<u>Plant Item</u>	<u>Cost</u>	<u>Useful⁴ Life</u>	<u>Annual Expense</u>
Remove existing aerators and bridges	\$ 3,500	5	\$ 700
Bridges	9,217	25	369
Blower and motor	9,077	5	1,815
Header	6,016	20	301
Diffuser and service man start-up	5,925	10	593
Ultraviolet disinfection system	38,620	20	<u>1,931</u>
Total Adjustment			<u>\$5,708</u>

C. Revenue Requirements

The approach frequently used by this Commission to determine revenue requirements for small, privately owned utilities is the operating ratio. This approach is used primarily when there is no basis for rate of return determination or the cost of the utility plant has fully or largely been recovered through the receipt of contributions. Staff recommends the use of this approach in determining Goshen's revenue requirements in this case.

In this proceeding, an operating ratio of 88 percent and an allowance for interest expense and the appropriate state and

⁴ Per PSC Division of Engineering


federal income taxes results in a revenue requirement of \$260,488⁵. Staff recommends that Goshen be allowed to increase its annual operating revenue by \$48,671⁶.


Rate Design

In its application, Goshen filed a schedule of proposed rates that did not include any changes in rate design. Staff agrees that the current rate structure should not be altered, and any increase granted in the case has been added to the existing rate design. The rates recommended by Staff will generate the required operating revenue from rates of \$244,822. Therefore, Staff recommends the rates in Appendix A be approved for sewer service.

⁵	Recommended operating expense before income taxes	\$ 218,918
	Divide by: Operating ratio	<u>88%</u>
	Required revenue before tax	248,770
	Plus: Income Taxes	7,649
	Interest Expense	<u>4,069</u>
	Required revenue	<u>\$ 260,488</u>
⁶	Revenue requirement	\$ 260,488
	Less: Other Operating Income	(5,257)
	Interest Income	<u>(10,409)</u>
	Revenue required from rates	244,822
	Less: Normalized revenues	<u>(196,151)</u>
	Required increase in revenues	<u>\$ 48,671</u>

E. Signatures


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APPENDIX A

TO STAFF REPORT CASE NO. 93-482

The Staff recommends the following rates be prescribed for customers of Goshen Utilities, Inc.

Schedule of Rates

First	2,000 gallons	\$9.25 Minimum Bill
Next	13,000 gallons	2.00 per 1,000 gallons
Next	15,000 gallons	1.70 per 1,000 gallons
Next	20,000 gallons	1.30 per 1,000 gallons
Over	50,000 gallons	.95 per 1,000 gallons

**APPENDIX B
TO STATE REPORT CASE 12-187**

**Washed Utilities, Inc.
Statement of Washed Utility Operations**

	Test Year	Adjustments	Pro Forma Present Rate
Operating Revenues			
Revenue from Sales	196,174	(23)	196,151
Forfeited Discounts	5,257		5,257
Total Operating Revenues	201,431	(23)	201,408
Operating Expenses			
Treatment Plant Expenses - Operation			
Labor and Related Expense	30,561	9,102	39,663
Purchased Power	35,657		35,657
Chemicals	1,604		1,604
Rent	1,076	1,266	2,342
Travel - Supplies	6,601		6,601
Treatment Plant Expenses - Maintenance			
Maint. of Collection Sys.	1,291		1,291
Maint. of Pumping Sys.	3,025		3,025
Maint. of Treatment Plant	3,673		3,673
Customer Account Expense and Debt	1,771		1,771
General Administrative and General Expenses			
Telephone Expense	46,156	1,291	47,447
Printing Expense	1,000		1,000
Postage Expense	1,000		1,000
Insurance Expense	1,907	12,894	14,801
Depreciation Expense	52,564	(10,010)	42,554
Depreciation - Insurance	1,500		1,500
Depreciation - Postage	1,000		1,000
Depreciation - Equipment	1,000		1,000
Depreciation - Office Equipment	1,000		1,000
Depreciation - Other Equipment	1,000		1,000
Total Operating Expenses	165,272	14,263	179,535
Operating Profit	36,159	(14,286)	21,873
Operating Profit - Expense			
Depreciation Expense	1,000	1,000	2,000
Total Operating Profit	35,159	(15,286)	19,873